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Japanese Banks, Government Part Of Complex Mexican Debt Plan

As many financial experts have been focusing on how to facilitate international capital flows that are supposed to help jump start the economies of Eastern Europe, Mexico and its creditors have been putting the finishing touches on a debt-restructuring plan that Mexico City hopes will substantially ease the burden of servicing its outstanding loans from 450 foreign banks. Of the almost $50 billion in public sector debt owed to banks, Japanese institutions hold approximately one-sixth, second only to U.S. banks.

On February 4 the government of President Carlos Salinas de Gortari signed a formal agreement with foreign bank representatives in Mexico City. Generally, the pact follows the outlines of what has become known as the Brady Plan, named after U.S. Treasury Secretary Nicholas Brady. The plan, unveiled last March, has been seen as a major departure from the typical options

obligations of the Mexican government, mainly at the cost of a potential loss to Tokyo and international financial organizations, such as the IMF.

Douglas Ostrom

Lower House Race Begins

Japanese politicians formally launched their campaigns February 3 for the February 18 House of Representatives elections amid rampant speculation about whether the opposition parties can knock the ruling Liberal Democratic Party from the pinnacle of power it has enjoyed since 1955. In an effort to exploit the reform movement that is sweeping the Soviet bloc, Prime Minister Toshiki Kaifu presented the lower house contests as a critical choice for voters between democracy and socialism. The three major noncommunist opposition parties pledged to cooperate among themselves in ending the "dictatorial and money-oriented LDP regime" and abolish the controversial 3 percent consumption tax. At this stage few are betting with assurance about who will be selected by Japan's 90 million voters among the record field of 953 candidates (see chart).

Candidates Running For Lower House Elections

Party	Incumbents	Former Office Holders	New	Total Candidates	Seats Won in 1986
Liberal Democrats	270	8	47	325	304
Japan Socialists	67	17	64	148	86
Komeito	42	0	16	58	57
Democratic Socialists	20	7	17	44	26
Japan Communists	23	12	96	131	27
Minor parties	5	0	72	77	10
Independents	5	4	161	170	2
Total	432	48	473	953	512

Source: Japan Times, February 4, 1990.

Borrowing a page from the American book on campaigning, the major political players squared off February 2 during Japan's first televised debate in 30 years prior to a lower house election. The three-hour session sponsored by the Japan National Press Club brought together LDP President and Prime Minister Toshiki Kaifu, Japan Socialist Party chairperson Takako Doi, Japan Communist Party chairman Tetsuzo Fuwa, Komeito chairman Koichiro Ishida and Democratic Socialist Party chairman Eiichi Nagasue. Mr. Kaifu generally emphasized that the ruling party's leadership acumen, acquired after 35 years at the Japanese government helm, will be critical as Japan and others in the Western alliance adapt to the new post-Cold War era. He contended that the Japan Socialist Party -- the country's largest opposition party -- sticks to the sort of outdated political and economic notions targeted for reforms in Eastern Europe and the Soviet Union. The prime minister also maintained that the noncommunist opposition parties would be unable to form a viable coalition due to policy differences.

Ms. Doi countered that her party supports the principles of democracy and soon would announce a new party platform. However, the JSP leader proposed no new initiatives to bridge policy differences with the Komeito and DSP. The Socialists, who favor a neutralist posture, part with the other two parties on the importance of the U.S.-Japan Mutual Security Treaty and whether it needs to be retained; they also support recognition of North Korea and oppose the use of nuclear energy. Referring to policies as the "life of political parties," Mr. Ishida suggested that a sharing of power among the LDP, JSP, Komeito and DSP might be unavoidable if the opposition parties cannot bend their views sufficiently. Presenting a rosier prospect, Mr. Nagasue said it was conceivable that he and his noncommunist colleagues could clear up their policy disputes "overnight" if they together garnered a majority in the lower house.

In a post-debate statement the DSP leader clarified that the noncommunist opposition parties' agreement to cooperate in usurping LDP control was not just an election strategy; a viable administration with a united platform could be formed, he said. However, Ms. Doi, terming this alliance a "people's coalition, not a party coalition," instead focused on the parties' unanimity in favor of abolishing the consumption tax and on social welfare matters.

Both the LDP and the JCP homed in on the apparently shaky foundation of a JSP-DSP-Komeito coalition. Mr. Kaifu compared Mr. Nagasue's comment to "overnight" agreements to a "student cramming the night before an examination." The JCP's Mr. Fuwa echoed the prime minister's sentiment but suggested that his party could cooperate with the other opposition parties on specific issues, such as abolishing the consumption tax and opposing liberalization of rice imports. Although the DSP's strong objections to the JCP effectively have barred the latter group from opposition party cooperation for nearly a decade, the Communists and several very small parties have lent important support to the noncommunist parties fighting LDP initiatives in the upper house.

A large portion of the debate revolved around an examination of Japan's international role, particularly its relationship with the United States. While all of the participants acknowledged the importance of bilateral ties, they disagreed on the nature of Japan's diplomacy toward the United States. Mr. Kaifu termed U.S.-Japan relations the core of Japan's foreign policy and sought to assure the electorate that, despite tensions over the trade imbalance, a major breach was not in the offing. The four opposition parties criticized the LDP for allowing bilateral tensions to mount. Mr. Nagasue called for the establishment of regular U.S.-Japan committee meetings to discuss bilateral issues. Ms. Doi, while stating her desire to visit the United States after February 18, nevertheless said that Tokyo should not follow lockstep Washington's foreign policy conduct.

Although all five participants agreed that Japan must prepare for a new international order, none presented specific policies to meet this challenge. The prime minister would say only that the trend toward arms reduction would help Japan play a more active role in global diplomacy. Two of the noncommunist opposition parties carefully sidestepped the security issue so as not to draw attention to a major obstruction to their political union. Ms. Doi, however, did propose the creation of an institution in the Asian Pacific region to help stabilize this part of the world during the transition to a new global order. The DSP's Mr. Nagasue stated that while the Mutual Security Treaty should be maintained he feels that Washington's demands for Japan to share more of the military burden even as U.S. defense spending is reduced amounts to a violation of "equal partnership." The JCP leader was the only participant to call

outright for treaty revision in light of changes in the Soviet bloc and in U.S.-Soviet relations.

At one point Mr. Nagasue accused the prime minister of using foreign policy to divert the public's attention from the consumption tax and the ruling party's "money politics." Japanese political analysts have maintained that two of the factors that led to the LDP's stunning loss of its majority in the July upper house elections were the April 1989 implementation of the tax as well as the involvement of several senior LDP officials in the Recruit Co., Ltd. bribery scandal (see JEI Report No. 32A, August 18, 1989). Some analysts have suggested that the decision of former chief cabinet secretary Takao Fujinami and former Vice Minister of Education Kunio Takaishi to run for reelection -- despite both of them being indicted for allegedly taking bribes from the employment and information services conglomerate -- has refocused voter attention on an episode from which the ruling party had hoped to distance itself.

Barbara Wanner

Japan's Economy In 1989 Shows Effects Of Prolonged Expansion

While all the results will not be in for months, 1989 appears to have been a very good year for the Japanese economy. That conclusion emerges from annual data for 1989 released through the early part of February. For example, the widely watched index of manufacturing and mining production surged 5.9 percent for the year based on preliminary figures for December. While not as impressive as the 9.5 percent jump recorded in 1988, the growth was nonetheless remarkable considering that Japan was in the third full year of an economic expansion. The operating rate index through November for manufacturing firms rose 2.7 percent, indicating that firms were using their existing capacity more fully.

Another indication of growing tightness was reflected in labor market data. The effective job opening per applicant ratio soared to 1.25, the most favorable situation for those seeking work since 1973, suggesting that job openings exceeded those seeking work by about 25 percent. A year earlier, supply almost exactly had equaled demand when the ratio was at 1.01. The strength in the labor market also was evident in the unemployment rate, which dipped to 2.3 percent in 1989 from 2.5 percent a year earlier. (Japanese and U.S. unemployment data are not directly comparable in their recording of full-time workers, for example.) Labor market conditions have so far led to only a modest acceleration of wage increases. However, with employee earnings rising more rapidly and labor productivity growing more slowly, the decline in unit labor costs has slowed dramatically. In fact, by some measures, unit labor costs were increasing by the end of 1989. For these reasons, business leaders face with some trepidation -- and labor leaders with considerable hope -- the 1990 spring labor offensive (see JEI Report No. 4B, January 26, 1990).

Increasingly strained capacity, coupled with ever-tighter labor markets and a weaker yen, contributed to a moderately higher rate of inflation during 1989. Wholesale prices were 2.5 percent higher in 1989 than a year earlier on average, led by import prices, which increased 7.7 percent. Toward the end of 1989, import prices surged, rising by 14.8 percent in November and 15.3 percent in December over year-earlier levels. A combination of higher oil prices and a